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ABSTRACT

Audits should be performed on school accounting systems because they are required by law and they provide independent reviews of school financial procedures and suggestions for improvement. A licensed certified public accountant, public accountant, or an accountant who has met the Continuation of Education requirement should perform the audit. Auditors are hired by sending a Request for Proposal (RFP) that gives information about the school system and asks about the auditing firm. When performing an audit, an auditor will gain an understanding of internal controls, assess risks, and conduct tests of financial records. An audit report describes what was audited, the delegation of responsibility, basis of opinion, explanatory language, audit guidelines, and the auditor's opinion. A management letter is used in some cases to inform administrators of deficiencies in internal controls. Suggested financial controls (general, budget, cash, purchasing, payroll, and grants) are outlined. A sample RFP outline and management letter is provided. (EJS)

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Your Audit and Financial Controls

The following speech was given to the Maine School Board's Annual Convention in October 1990. The presentation was given by Mary B. Hatch, CPA, Schatz Fletcher and Associates, Waterville, Maine; Kathleen B. Tyson, CPA, Runyon, Kersteen, Ouelette and Lessard, South Portland, Maine; Dr. Rodney P. Hatch, Superintendent of School, MSAD #74, North Anson, Maine.

The speech covered the following topics:

1. Why do an audit
2. Who should be doing your audit?
3. How do you hire an auditor?
4. What does an auditor do when performing an audit?
5. What does the audit report really say?
6. What is a management letter (letter of reportable conditions)?
7. What financial controls should you have in place?

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WHY DO AN AUDIT

1. Maine law (title 20A - Section 6051) requires an audit.
2. Federal law - The Single Audit Act of 1984 - requires a single, comprehensive financial and compliance audit of all schools receiving more than \$100,000 in Federal Funds. This audit must be done following the provision of OMB Circular A-128 (Office of Management and Budget.) If your school system receives less than \$100,000, discuss with your auditor the type of audit that is necessary.
3. It provides the Board with an independent review of the schools financial records and procedures.
4. Most importantly, letter of reportable conditions or the management letter provides the administration with valuable suggestions on how to improve its procedures.

WHO SHOULD DO AN AUDIT

1. A licensed Certified Public Accountant or people working for a licensed CPA firm.
2. A licensed Public Accountant, licensed prior to December 31, 1970.
3. Accountants who have met the Continuation of Education requirement which states that every 2 years they must have at least 80 hours of continuing education with at least 20 hours in any one year. Twenty-four hours of the 80 hours must be related to the Governmental environment or Governmental auditing.

HOW DO YOU HIRE AN AUDITOR

1. By asking for Requests for Proposals (an RFP.) Your chances of receiving high quality proposals will be enhanced if your RFP provides details about your school to include:
 - a. General information about the school system.
 - b. An explanation of what is to be audited.
 - c. Information on the accounting system, controls, records and procedures.
 - d. A statement on whether or not the Single Audit Act applies.
 - e. Whether or not data from previous years will be available.
 - f. Do major audit findings remain open from prior years.
 - g. What assistance your staff will be able to offer.
 - h. A statement that your records will be ready and in good form by the specified date.

2. Your RFP should also ask about the auditing firm.
 - a. What are the qualifications of the firm.
 - b. What are the qualifications and experience of the firm's staff.
 - c. Has the firm had an External Quality Review or a Peer Review completed in the last 3 years.
 - d. Has the staff assigned to your audit had continuing professional education in government accounting and auditing during the past two years.
 - e. What experience has the staff assigned to do your audit had in school audits.
3. Other information that should be in an RFP includes:
 - a. The number and types of reports needed.
 - b. The time requirements for doing and completing the audit.
 - c. State the length of the contract (2-3 years is the usual length.)

3a

- d. Ask for an all inclusive maximum fee for each year of the contract.
 - e. Under what conditions may the firm charge additional fees.
 - f. A requirement that the school be notified before costs are increased.
- 4. Talk with Superintendents or Business Managers who have had audits completed by the firm to see if they have had a positive experience with the firm.
 - 5. Did the firm call or send a representative to check your records and procedures prior to submitting a proposal.

WHAT DOES AN AUDITOR DO WHEN PREFORMING AN AUDIT?

- I. After being selected as your auditor and before arriving at your office, the auditor will:
 - A. Issue an Engagement letter. This letter describes the services to be performed and is the contract for those services. It should be understood by the parties involved and must be signed by the CPA and by an authorized representative of the school system.
 - B. Ask for copies of several prior years' audit reports. This information is used to analyze past results of operations and understand the implications of the current year's data.
 - C. Have you give permission to your former auditor to make information available to your current auditor. The auditor must be able to have access to all information needed to complete his audit.
- II. When the auditor arrives to complete his testwork, he will do the following:
 - A. Gain an understanding of your internal control structure. The auditor will ask many questions to learn about your
 1. Organizational structure and management philosophy
 2. Accounting system for recording and supporting the financial information for your organization.
 3. Checks and balance in place to assure accurate and timely information.
 - B. Assess risks and adjust audit testing to minimize those risks to an appropriate level. The risks being assessed by the auditor are:
 1. Inherent risk – the risk that an account balance may be misstated due to the nature of the account itself. For example, cash is more easily misappropriated than fixed assets such as a chair or desk.
 2. Control risk – the risk that a misstatement in an account could occur and the internal control system in place would not prevent it or detect it quickly. Bank reconciliations performed several months late would be considered a control risk.

3. Detection risk – the risk an auditor will not find a misstatement in an account balance during the audit. The risk is minimized by a careful selection of items and deciding what amount of misstatement would be important or "material" to the financial statements being audited.

The auditor, as he assess risk and performs audit work is concerned with making sure the financial statements are free of material misstatements.

- C. Perform enough tests of the financial records to gain confidence in them. These tests will include, but are not limited to, the following:

1. Send confirmation letters – These are often sent to banks, lenders institutions, leasing companies, and towns who are assessed contributions to the school budget.
2. Read minutes of the Board of Directors – This provides an overview of important decisions made throughout the year being audited and until the date of the audit report.
3. Inspect support for items making up account balances – These should include invoices, canceled checks, signed warrants, employment contracts, contracts and grant agreements with state and federal agencies, etc.
4. Perform "reasonableness" tests on selected account balances – These are often done on payroll, lunch income, sports gate receipts, etc.
5. Interview personnel from many different positions within the organization. This process helps in accumulating the information needed to complete the audit process.
6. Discuss problems and concerns throughout the audit with appropriate school personnel.

- III. After completing his work in the field, the auditor will:

- A. Draft the financial statements.
- B. Should his work for internal quality review according to his firms standards.

- C. Prepare a representation letter. This letter is signed by an appropriate representative of the school assuring the auditor of the completeness and accuracy of the information provided to him and acknowledging responsibility for the information.
- D. Prepare a management letter. This letter will be discussed in more detail at a later time.
- E. Sit down with school officials and review the draft copy of the audit report, the representation letter and the comments in the management letter.
- F. Issue the final audit report.

WHAT DOES THE AUDIT REPORT REALLY SAY?

- I. Tells who is the authorizing body...ie to who the report is addressed – (usually the party retaining the auditor.)
 - A. Legislature authority of the governmental unit
 - 1. School Districts – Superintendent
 - 2. School Departments – Usually Superintendents
- II. What was being audited
 - A. Usually general purpose financial statements
 - B. Sometimes specific statements
 - 1. Cash Receipts/Disbursements for Activity Funds
- III. Delegates Responsibility
 - A. The management of the district or department is responsible for the financial statements.
 - B. The auditors are responsible for expressing an opinion on these financial statements.
- IV. Tells basis of opinion – "based on our audit"
- V. Explanatory Language – for certain circumstances not affecting opinion
 - A. Opinion based in part on another auditor's report
 - B. Departure from GAAP used to prevent f/s from being misleading
 - C. Uncertainties of future events which cannot be reasonable estimated as of the date of the report.
 - D. "Going concern"
 - E. Material change between periods in accounting principles of their application.

F. Certain circumstances regarding comparative statements

VI. Guidelines for the audit

A. In accordance with GAAP

1. Plan & perform to obtain reasonable assurance (not absolute)
2. Examination done on a test basis – evidence in support of amount and disclosures
3. Assessment of accounting principles – GAAP
4. Overall evaluation or assessment of presentation
 - a. "The total picture"
 - b. includes auditor's judgement

B. Other – will be outlined in the report

VII. Expression of opinion

A. Regarding the f/s as a whole

B. Types

1. Unqualified – everything seems to be AOK – ie free of material misstatement
 - a. Material = something that is sufficiently important to influence decisions made by reasonable users of financial statements
2. Qualified – there are problems, here they are, and here are the reasons why they are problems, but every thing else seems to be fairly presented.
 - a. Omission of component
 - b. Omission of a fund type of account group
 - c. Omission of a fund from a fund type
 - d. Omission of a required budgetary operating statement
3. Adverse – the f/s are not presented fairly

4. Disclaimer of opinion – an assertion to the effect that an opinion cannot be expressed – and the reasons why
5. Usually when events preclude the auditor from completing all the procedures she/he deems necessary to form an opinion.

VIII. Reports on a Component Unit

- A. Definition – a separate governmental unit or agency that is evaluated in relation to specified criteria to determine whether it should be included in a financial reporting entity.
- B. Criteria –
 1. Financial interdependency
 2. Selection of governing authority
 3. Designation of management
 4. Ability to significantly influence operations
 5. Accountability for fiscal operations
 6. Scope of public service
- C. Report – same as for oversight unit
 1. Exception – first paragraph refers to the f/s as those of MSAD, a component unit of the Town.

Unqualified Opinion on General Purposes or Component
Unit Financial Statements Only

Independent Auditor's Report

- (II) We have audited the accompanying general purpose* financial statements of MSAD #___, as of June 30, 19XX, and for the year then ended. (III) These general purpose* financial statements are the responsibility of MSAD #___ management. (IV) Our responsibility is to express an opinion on these general purpose* financial statements based on our audit.
- (VI) We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose* financial statements are free of material misstatements. An audit included examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose* financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose* financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- (VII) In our opinion, the general purpose* financial statements referred to above present fairly, in all material respects, the financial position of MSAD # ___, as of June, 19XX, and the results of its operations and changes in financial position of its proprietary and similar trust fund types for the year then ended in conformity with generally accepted accounting principles.

Signature

Date

*If the financial statements are for a component unit (ie. school departments), the term general purpose financial statements would be replaced by the term component unit financial statements.

NOTE: Numerals refer back to narrative. "What Does the Audit Report Really Say?"

WHAT IS A MANAGEMENT LETTER?

- I. Currently called "Letter of Reportable Conditions"
 - A. Management Letter in some cases when...
 - 1. Deficiencies found in internal control structure
 - 2. Auditors wish to convey to management
 - 3. No reportable conditions or material weaknesses
- II. Reportable Conditions = significant deficiencies in the design or operation of the internal control structure that could adversely affect the entity's ability...
 - A. Record
 - B. Process
 - C. Summarize
 - D. Report

...financial data consistent with the assertions of management in the financial statements
- III. Addressed to Audit Committee or governmenting legislative body.
- IV. Relation to Auditor's Opinion
 - A. INDEPENDENT – the bearing on the opinion expressed on financial statements
 - B. Information gathered while performing the audit
- V. Purpose
 - A. Not to provide assurance on the internal control structure
 - B. To inform only
- VI. Also can be used to report on Material Weaknesses
 - A. A reportable condition

1. Risk of occurrence of errors or irregularities not sufficiently low.
 - a. In material amounts
 - b. Could occur and not be detected because controls not there or not operating correctly
 - B. Material = something that is sufficiently important to influence decisions made by reasonable users of financial statements.
- VII. Guarantees – NONE
- A. Auditors' consideration would not necessarily find nor disclose all problems that could be reportable or material
- VIII. Intended users of report
- A. Solely for the information and use of administration and management
 - B. Distribution not limited
 - C. Public record
- IX. Nature of letter
- A. Critical
 - B. Does not include strengths
- X. Report on Supplementary Information – Schedule of Federal Financial Assistance
- XI. Other Reports on Compliance and Internal Accounting Controls
- A. Compliance Report Based on an Audit of General Purpose or Basic Financial statements Performed in Accordance with Government Auditing Standards.
 - B. Single Audit Opinion on Compliance With Specific Requirements Applicable to Major Federal Financial Assistance Programs
 - C. Single Audit Report on Compliance With General Requirements Applicable to Major Federal Financial Assistance Program Transactions.
 - D. Single Audit Report on Compliance With Requirements Applicable to Nonmajor Federal Financial Assistance Program Transactions.

- E. Report on the Internal; Control Structure in Accordance With Government Auditing Standards
- F. Report on Internal Controls (Accounting and Administrative) – Based on a Study and Evaluation Made as a Part of an Audit of the General Purpose or Basic Financial Statements and the Additional Tests Required by the Single Audit Act.

SUGGESTED FINANCIAL CONTROLS

I. General

- A. A current organizational chart clearly indicates lines of authority.
- B. Current job descriptions list the responsibilities of each position.
- C. Employees are adequately trained and/or experienced.
- D. Financial staff are required to take annual vacations while duties are rotated.
- E. Staff with access to cash and valuable assets are bonded.
- F. Staff responsible for maintaining accounting records do not handle cash or inventory.
- G. A double entry bookkeeping system is used and kept up-to-date, balanced, and reconciled monthly.
- H. A current accounting manual and chart of accounts is maintained including:
 - 1. A listing of funds and activities to be recorded in each.
 - 2. Procedures for maintaining books and preparing financial reports.
- I. Budgets are required for governmental funds and proprietary funds.
- J. Authorizations and approvals are required for all cash disbursed and journal entries made to the general ledger.
- K. All significant funds are maintained on one general ledger system which is regularly reviewed by appropriate officials.
- L. Access to all accounting records and computers is controlled.

II. Budget

- A. Budget is adopted for all funds as required by statute.
- B. Budget format is designed to allow for comparison of budgeted costs to actual expenditures.
- C. All interfund transfers are budgeted.
- D. Budget reports, comparing budgeted activity to actual activity, are reviewed by appropriate officials on a regular basis.

III. Cash

- A. Prenumbered cash receipts are used in sequence for all cash receipts, and accounted for regularly.
- B. All cash received is deposited daily.
- C. Employees duties are segregated appropriately. This means, employees handling cash do not have access to the accounting records and vice-versa. Persons responsible for reconciling the bank statement to the books do not handle cash or record data on the books.
- D. All payments for goods and services are made by check.
- E. All checks are prenumbered and used in numerical sequence.
- F. Unused checks are kept locked up.
- G. Payments are only made on approved vouchers.
- H. Supporting documents (i.e. vouchers, invoices) are canceled when check is signed.
- I. Voided checks are maintained by the school.
- J. Blank checks are never signed.
- K. Signed checks are never returned to "check preparer" before mailing.
- L. Check signing machines are carefully controlled.
- M. Two signatures are required on larger checks.
- N. All warrants are signed by the Superintendent and Board of Directors or it's Finance Committee before the checks are mailed.

IV. Purchasing

- A. The school/SAD should have a purchasing policy and all purchases should be made in accordance with that policy.
- B. Purchase orders should be used on all purchases (or purchases over certain dollar limits)
 - 1. Purchase orders should be prenumbered and used in sequence.
 - 2. Numerical sequence of purchase orders should be checked and old/open purchase orders should be followed up by an employee independent of the initiation of purchases.
- C. Receiving Reports
 - 1. Written receiving reports should be prepared on all items received (many times one copy of the purchase order is utilized for this function) and sent to the accounting department to be matched with purchase order and invoices.
- D. Invoices
 - 1. Invoices should be mailed directly to the accounting department from vendors.
 - 2. In processing invoices:
 - a. all data should be checked to approved copies of purchase order and receiving reports and extensions, footings and descents should be checked.
 - b. invoices should be reviewed and approved for payment by a responsible employee separate from the accounts payable functions.

V. Payroll

- A. Personnel files should contain the following:
 - 1. Employment application and new employee investigation records.
 - 2. Date employed.

3. Pay rates.
 4. Changes in pay rates and position.
 5. Authorization for payroll deductions.
 6. Earnings record.
 7. W-4 form.
 8. Specimen signatures.
 9. Termination dates (if applicable.)
- B. Personnel files and records should be kept locked and/or their access should be limited to authorized personnel.
- C. Formal attendance records should be maintained by authorized personnel (sick time etc.)
- D. Employees performing the payroll should be independent of the following:
1. Time keeping.
 2. Distribution of payroll checks.
 3. Access to cash.
- E. The payroll should be subject to final approval before issuance of checks by a responsible employee separate from the above functions.
- F. Payroll checks should be drawn off a separate (Imprest) account.
- G. If checks that are machine signed or stamped; access to stamp should be limited to authorized personnel.
- H. Payroll checks should be prenumbered; blank checks should be controlled; checks used in numerical sequence and reconciled to the payroll check register.
- I. Quarterly there should be a reconciliation of gross and net pay amounts as shown on your tax returns to total payroll on the payroll register and the general ledger.
- J. Procedures should be in place which ensure timely notification to payroll department of any new hires, rate changes, position changes or terminations.

VI. State and Federal Grants

- A. All of the internal controls for budget, cash, purchasing and payroll discussed above should be applied to state and federal grant programs.
- B. Accounting system/chart of accounts should provide for the accounting for receipts and expenditures of each grant separately.
- C. Have a written time schedule for filing various financial reports with grantors.
- D. Notify employees when grant provisions impose restrictions that differ from normal practices.
- E. A responsible official should review costs charged to insure compliance with grant agreement and applicable federal management circulars (i.e. OMB circular A-87 etc.)
- F. A large percentage of grant funds received by School Departments and Districts are from federal sources passed through the State Department of Education. There are general compliance requirements for federal funds which employees should be aware of which include the following:
 - 1. Use of federal assistance funds for partisan political activities is prohibited.
 - 2. Federally financed construction projects require laborers be paid established rates (Davis Bacon Act.)
 - 3. Federally funded programs cannot exclude any persons based on race, color, national origin or handicap (Civil Rights.)
 - 4. Procedures must be established to reduce time between the receipt and use of federal funds (Cash Management.)
 - 5. Required submission of federal reports.
 - 6. In addition, specific requirements exist for each program (i.e. Chapter 1 etc..) Program administrators should be familiar with these requirements. Documentation on compliance should be maintained in Program Files.

MSAD #74
Office of the Superintendent
North Anson, ME 04958

REQUEST FOR PROPOSALS
FOR ANNUAL FINANCIAL AND COMPLIANCE AUDIT

MSAD #74 invites proposals for an audit of its financial records. Information and audit requirements are available from MSAD #74, P.O. Box 159, North Anson, Maine 04958 or by calling 635-2727. Sealed proposals marked "Audit Proposals" are due by 1:00 p.m. on May 15, 1990, at the Office of the Superintendent of Schools, MSAD #74, P.O. Box 159, North Anson, ME 04958.

PROPOSAL INFORMATION

A. Administrative Information

1. MSAD #74 of system is composed of the towns of Anson, Embden, New Portland and Solon. It has a student enrollment of 1,003 with 165 staff members. There are five elementary schools and one high school. All financial records are located in the Superintendent's Office in North Anson.
2. Schedule of funds to be audited
 - a. Government Fund Types
 - General
 - Special Revenue
 - Capital Projects
 - b. Proprietary Fund
 - Enterprise
 - c. Fiduciary Funds
 - Student Activities
 - Trusts
 - d. Account Groups
 - General Fixed Asset
 - General Long Term Debt
 - e. Source of Revenues:
 - Local Assessment
 - State Subsidy
 - Interest Income & Refunds
 - Tuition
 - Miscellaneous
 - State and Federal Projects (listing with estimated expenditures)
 - Special Projects
 - Adult Education
 - High School Activities
 - Meals and Subsidies
 - f. Sub recipients of federal funds passed through from the school system

A. 3. Description of Accounting Records

MSAD #74 follows the State of Maine Handbook II, Financial Accounting Classifications and Standard Terminology for Local and State School Systems, Second Revision, 1979.

The accounting records of MSAD #74 are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity/retained earnings, revenues, and expenditures, or expenses as appropriate. The modified accrual basis of accounting is followed by the governmental funds, expendable trust funds, and agency funds.

4. Description of Computer Systems

The school system uses a Digital PDP 1123 for its payroll and general accounting. The software used is private development and the programmer for the system is James Martin. The District is in the process of updating its equipment and software. Network Systems, Inc. has been selected to replace our equipment and software by July 1, 1990. The accounting functions are performed by:

Wanda Johnson, Business Secretary
Trudy Berry, Central Office Secretary
Dan Drost, Central Office Secretary
Peggy Morrison, Central Office Secretary

5. Name of contact person

The contact person for this audit will be Wanda Johnson, Business Secretary. She may be contacted at 635-2727.

6. Period to be Audited

The period to be audited will be July 1, through June 30 of each of the contract years, beginning July 1, 1990 for the audit period 1989-90).

7. Term of Contract

The term of contract will run from July 1, 1990, through June 30, 1993. An optional proposal will be considered for the period July 1, 1990 through June 30, 1992.

8. Availability of Prior Audit reports and Working Papers

Included in this information packet is a copy of the prior year's audit report and management letter. All prior audit reports will be available for inspection. The extent and availability of prior work papers are not known.

B. Work and Reporting Requirements

1. Auditing Standards to be Followed

All audit work will follow generally accepted governmental auditing standards and those found in Title 20-A, Section 6051 of the Maine Revised Statute Annotated and the 1988 revision of the Governmental Auditing Standards issued by the United States General Accounting Office. The provisions of the Single Audit Act of 1984 and the provisions of OMB Circular A-128, Audits of State and Local Governments shall apply.

2. Extent of Assistance from MSAD #74. The business office is normally open Monday through Friday 8:00 a.m. to 5:00 p.m. A work area will be provided in the Superintendent's Office or, if needed, a separate room will be made available in the Academy Building. The successful bidder may expect assistance from the school staff identified in A. 4. to provide material to include:

- a. a copy of year end trial balance
- b. details of any account balances
- c. type bank confirmations, as needed
- d. pull any requested invoices

3. Specific Scope of Audit Work to be Performed

The scope of the audit will include, but not be limited to the following:

A. Financial Audit

1. The audit will consist of an examination of the combined financial statements of the various fund and account groups of the school district as listed in section A. 2. of the request for proposal. The auditor will review, test and evaluate the school District's significant internal control systems to the extent necessary to render an opinion. The auditor will examine such information as is necessary to allow the auditor to render an opinion on the financial statements.
2. The auditor will render an opinion as to whether the financial statements are fairly stated in accordance with generally accepted accounting principles, and explain any exceptions.

3. The auditor will issue a letter to management setting forth any identified material weaknesses in internal controls and propose methods of correcting such weaknesses, if practicable.

B. Compliance Audit

The auditor shall perform a compliance audit of the school District's financial assistance programs, in accordance with the provisions of the Single Audit Act of 1984 and the provisions of OMB Circular A-128, Audits of State and Local Governments. The auditor shall render an opinion on the schedule of federal financial assistance, and on the internal accounting and administrative controls at the general purpose financial statements level and federal financial assistance program level, and on compliance at the general purpose financial statements level and the federal assistance program level.

4. Number of types of reports required

The school system will require 25 bound reports that will contain, as a minimum, the following information:

- a. Management letter
- b. Financial/compliance report
 1. Balance Sheet - All Fund Types and Account Groups
 2. Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Fund Types
 3. Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund
 4. Statement of Revenues, Expenditures and Changes in Fund Balances - Special Revenue Fund
 5. Statement of Revenues, Expenditures and Changes in Fund Balance - Enterprise Fund
 6. Summary of Significant Accounting Policies and Notes to the Financial Statements
 7. Schedule of Departmental Operations
 8. Budget, Assessment and Valuation
 9. High School Student Activity Accounts - Schedule of Revenues and Expenditures
 10. Schedule of Federal Financial Assistance

5. Exit Conference Requirements

1. Provide an opportunity for the school system to ask questions about the audit scope or procedure

2. Cover any departure from GAAP
3. Discuss any errors or irregularities that were observed
4. Discuss questioned costs relating to federal financial assistance
5. Any recommendations to improve the accounting procedures or the financial operations of the school system
6. Provide, if possible, beginning balances for the new fiscal year

C. Time Requirements

1. Records would be ready for audit review by July 28 of each year.
2. Dates for completing
 - a. The final report will be delivered to the Superintendent of Schools by October 15 of each year.
3. Date of Contract Award

Proposals will be publicly opened and read at 1:00 p.m. on May 15, 1990, at the Superintendent of Schools Office in North Anson, Maine. The Board of Directors will award the contract by June 7, 1990.

4. Working Paper Retention Requirements

All working papers related to this audit shall be retained by the auditors for a period of three years. The school system or its representatives shall have access to those papers at a mutually convenient time. All requests for review of the working papers shall be honored within 10 working days of such request.

5. Accounting records and reports may be reviewed by contacting Wanda Johnson, Business Secretary at 635-2727.

D. Proposal Information

1. Evaluation criteria
 - a. Prior relevant governmental auditing experience of the firm
 - b. Reputation of the firm. Include, in this section, information on your firm's participation in quality control reviews.

- c. Qualification and experience of the personnel that probably will be assigned to the audit team. Include, in this section, information on your staff's participation in continuing professional education in government accounting and auditing during the past two years.
 - d. Ability to schedule the audit within the established time lines
 - e. Fee
2. The MSAD #74 Board of Directors reserves the right to accept or reject any or all proposals. The award will not necessarily be based on the lowest bid submitted.
3. Proposal Format
- a. State the firms understanding of work to be done.
 - b. Make a commitment to perform the work within the time specified.
 - c. Include any comments or exceptions to the requirements of the invitation.
 - d. Provide an all-inclusive maximum fee which shall be charged for the audit separated by each fiscal year.
 - e. Include the name, address and phone number of the firm and the contact person.
 - f. Have an authorized representative of the firm sign the proposal.
 - g. Provide a profile of your firm to include the location of the office from which the work will be done, number and position of professional staff and range of activities performed by staff in the office that will do this audit.
 - h. Identify the individual who will likely be assigned the audit. Describe their qualifications and experience. Resumes may be submitted in lieu of this description.
 - i. Provide the names of school systems and governmental agencies for whom the firm has conducted financial audits during the past five years.

E. Contractual Information

- 1. Recourse in the event of poor quality work or contract violations

The school system reserves the right in cases of poor quality work or contract violations, to:

- a. Have the area in question corrected.
- b. Report the situation to the Maine Board of Accountancy.

- c. Withhold a prorated portion of the payment until the area in question has been corrected.
 - d. Refer the report to the State Department of Education.
- 2. Provision for equal employment opportunity. A contract in excess of \$10,000 shall contain a provision for EEO.
 - 3. Provision for termination of contract

The contract may be terminated with six months notice by either party to the other.
 - 4. The audit firm will not be reimbursed for any travel per driver, photo coping, telephone bills or other related expenses of the audit unless incurred at the specified request of the school system.
 - 5. Payment will be made upon completion and acceptance of the audit report or on other terms acceptable to the school system.
 - 6. The audit firm will notify the school system of any anticipated cost overruns as soon as they become known.

Sources: CPA Audit & Quality, a framework for Processing Audit Services. United States General Accounting Office, August 1987

How to Avoid a Substandard Audit: Suggestions for Procuring an Audit. National Intergovernmental Audit Forum, May 1988.

State of Maine Laws title 20A, General Education Laws.

State of Maine Laws title 30A Municipalities and Counties.